Spotlight on Canada!

An inside look from an outside perspective

Insights from International Rankings on Reaching Canada's Potential

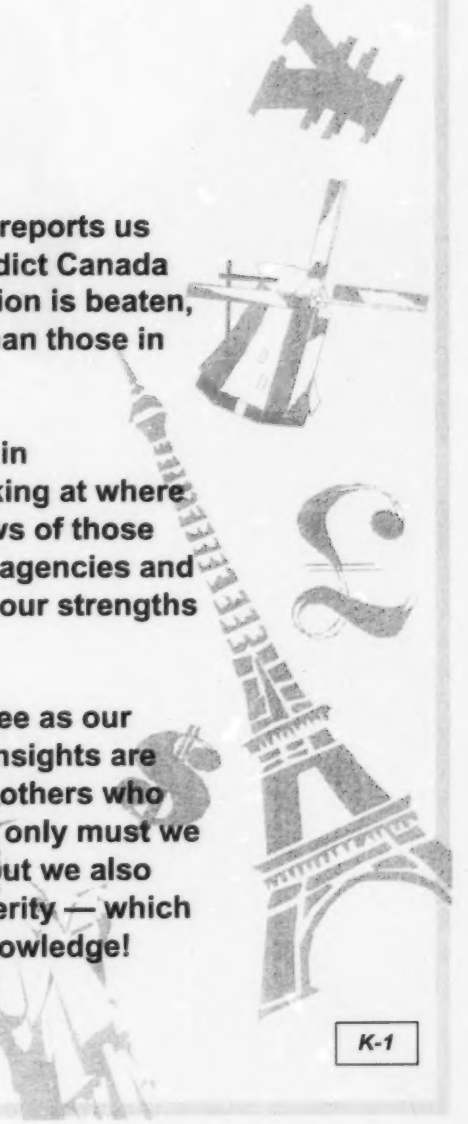
Spotlight on Canada!

An inside look from an outside perspective

The U.N. says Canada is 1st in terms of quality of life. The World Bank reports us one of the wealthiest countries in the world. The OECD and others predict Canada will likely outperform other major industrial economies this year. Inflation is beaten, and our governments have collectively wiped out their deficits faster than those in any other country.

Yet, we can do better. We lag many of our most important competitors in productivity growth, and the U.S. in terms of per capita income. In looking at where Canada needs to focus further to increase its competitiveness, the views of those outside our economy — from international organizations, international agencies and think-tanks — may provide different perspectives on how we can lever our strengths and tackle our weaknesses.

This feature provides a checklist on what such outside organizations see as our strengths and weaknesses, taken from their published material. Their insights are key insofar as they may also reflect the views of outside investors and others who determine international commerce. And what they point out is that not only must we remain focussed on today's essentials (where we are doing very well) but we also need to pay attention to some new fundamentals for tomorrow's prosperity — which focus on the importance of the know-how and the "how to" of using knowledge!



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Moving up the ladder!

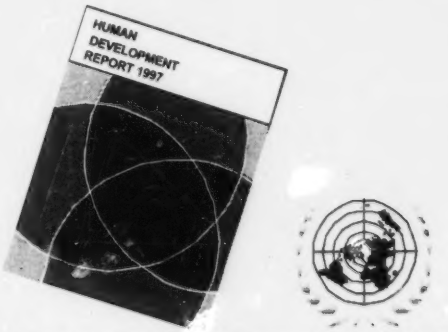
We are already No. 1 — in quality of life...

For the 4th year in a row, the U.N. ranks Canada 1st in the overall Quality of Life. On the basis of citizens' health, education and wealth, we surpass all other countries.

In an additional comparison, the U.N. also takes into account how well both genders are doing. Again, Canada ranks 1st — up from 2nd place last year.

Quality of Life — Human Development Index 1997

	Basic Index Rankings	Gender-related Rankings
Canada	1	1
France	2	6
United States	4	5
Japan	7	12
United Kingdom	15	13
Germany	19	16
Italy	21	23



The UN's Human Development Index measures achievements in life expectancy, education and standard of living.
Source: United Nations

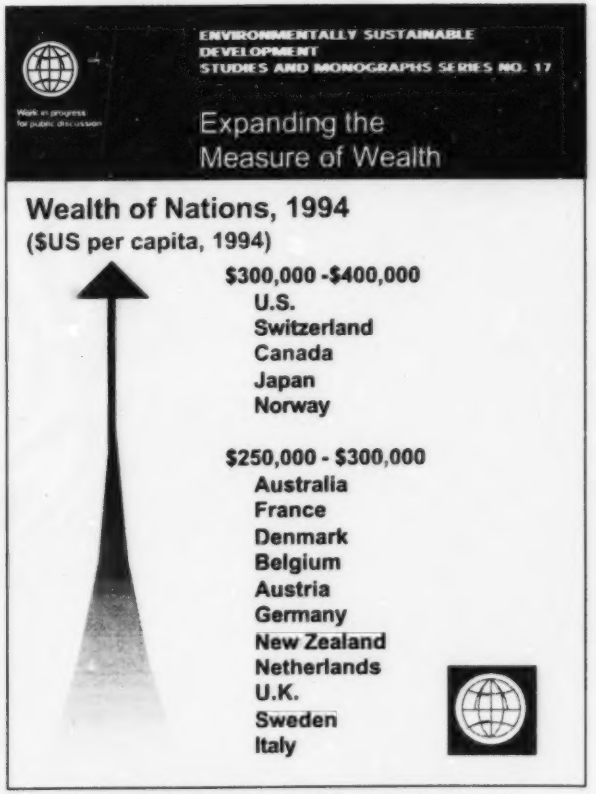
Canada is 1st in Quality of Life — for the 4th year in a row.

...with great wealth...

The World Bank names Canada among the world's top-5 in terms of wealth, alongside the U.S., Switzerland, Japan and Norway.

Canada outranks many countries because of our vast natural resources and high investment in people. Our physical capital and infrastructure also rate high!

The World Bank places Canada among the top 5 nations in terms of wealth.



Based on natural capital (agricultural land, forests, minerals, fossil fuels), human resources (productive capacity of people) and produced assets (plant, machinery, public infrastructure)
Source: World Bank's Wealth of Nations, 1997

...and top-notch cities

The Geneva-based Corporate Resources Group compares almost 200 major international cities for their Quality of Life — and ranks Vancouver No. 1 in the world and Toronto No. 3.

And Fortune magazine includes Toronto in its 1997 top-10 list of the places that stand out as exceptional because they've grown faster, attracted more new businesses, and are in the best shape to capitalize on future opportunities. In the previous year, Fortune magazine trumpeted Toronto as the top city outside the U.S.

Canada's cities are world-class.

Excellent City Life — 1997

Vancouver voted tops in the world and Toronto third.

Based on 1997 survey covering political and economic stability, crime, pollution, health, environment, education, infrastructure and leisure facilities.
Source: Corporate Resources Group

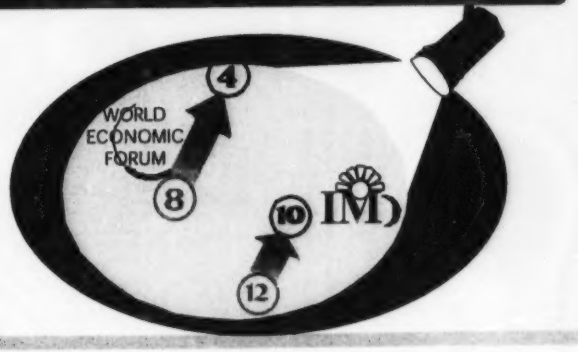
Plus we are improving in world competitiveness

The widely-cited International Institute for Management Development (IMD) and the World Economic Forum (WEF) both agree Canada's competitive position is <u>improving</u>.

The IMD's World Competitiveness Yearbook ranks Canada 10th out of 46 countries — up from 12th place the year before.

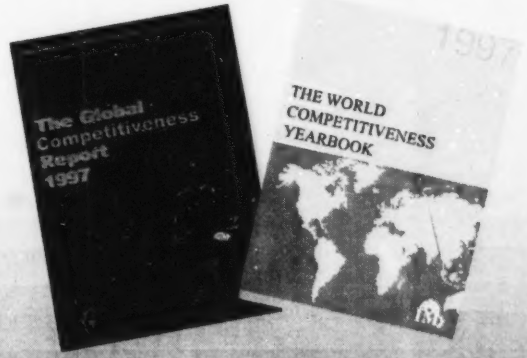
And the WEF's Global Competitiveness Report, which is more forward-looking, examining our ability to achieve high rates of <u>future</u> growth, places Canada 4th out of 53 countries — a considerable improvement from 8th place in 1996.

The view is broadly held — our competitiveness is increasing!



Our International Competitiveness

WORLD ECONOMIC FORUM		IMD
Singapore	1	United States
Hong Kong	2	Singapore
United States	3	Hong Kong
Canada	4	Finland
New Zealand	5	Norway
Switzerland	6	Netherlands
Britain	7	Switzerland
Taiwan	8	Denmark
Malaysia	9	Japan
Norway	10	Canada



Source: WEF's Global Competitiveness Report and IMD's World Competitiveness Yearbook

Canada is also recognized for its low business costs...

In most respects, Canada is a remarkably inexpensive place to do business. The cost of living and most costs of doing business are lower than in other countries.

In fact, travel, rent and telecommunications costs are among the lowest. The Economist notes our corporate taxes are high — but overall, our business costs are the lowest in the G-7. A fact substantiated by a recent KPMG study.

KPMG

THE COMPETITIVE ALTERNATIVE

Canada has a 5.4% cost advantage over the U.S.

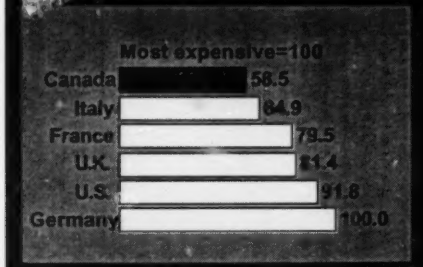
The Economist Intelligence Unit

RESEARCH REPORT
November 1997

Worldwide business cost comparisons

The costs of setting up a business in 27 countries
by Jill Leyland

Canada's Top Rankings!	G-7* Ranking
Low wages and salaries	2nd (behind Italy)
Low cost of living	1st
Low housing costs	1st
Low education costs	1st
Business travel costs	
Low airfares	2nd (behind the U.S.)
Low corruption	1st
Low office rents	1st
Low industrial rents	1st
Low local telecommunications**	1st
Low international telecommunications***	2nd (behind the U.K.)
Road provision	1st



L-5

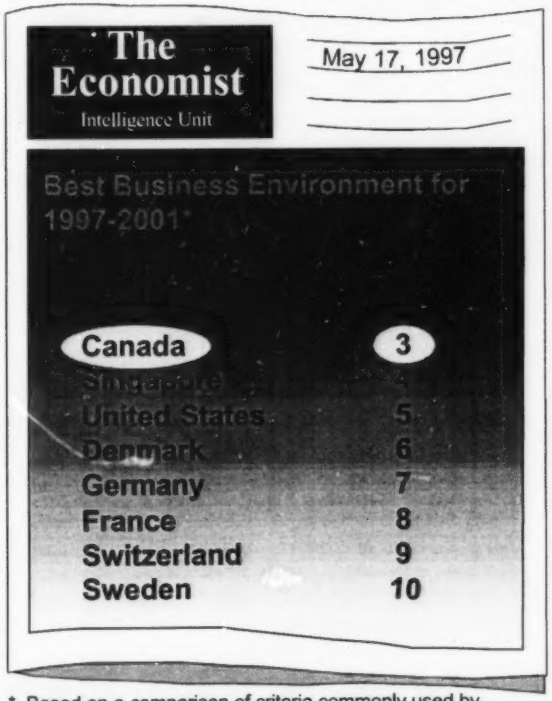
* Japan is not included in the EIU rankings
** Cost of a local 3-minute call at peak time (peak rates during the working day)
*** Cost of 3 international calls of 3-minutes, to London, New York and Tokyo

...and its attractive business climate...

The Economist also rates Canada as one of the top 3 countries in the world in which to do business over the next 5 years — behind only the Netherlands and the U.K.

Canada's attractiveness includes its low business costs, but also its high quality and inexpensive telecommunications and its good transportation network.

The Economist says we'll be a top place to do business.



* Based on a comparison of criteria commonly used by companies when choosing international locations — including market potential, tax and labour market policies, infrastructure, skills and the political environment.

...and respected as an honest place to do business...

Another, too-often-overlooked feature highlighted by Transparency International is Canada's business honesty and low levels of corruption.

- **Canada rates 5th out of 52 countries — better than all other G-7 countries.**

In addition, Angus Reid International finds that Canadian business reliability and honesty are viewed positively by others.

INTERNATIONAL VIEWS OF CANADIAN BUSINESSES
How Canadian Businesses Compare to Others

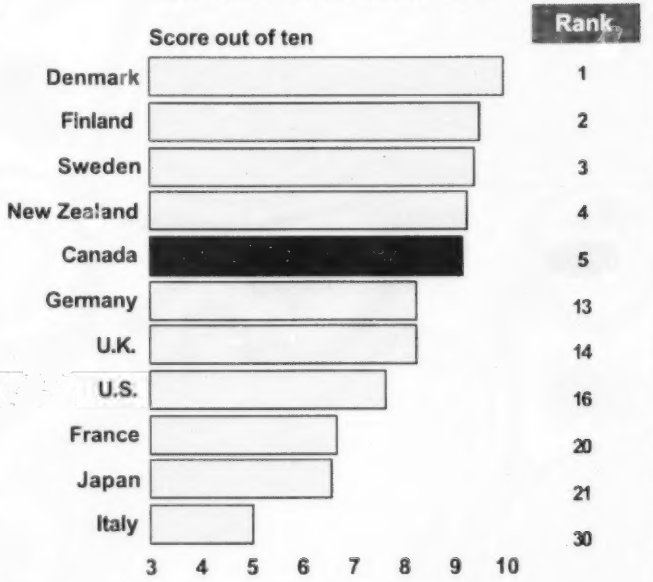
"Compared to businesses from other countries including your own, would you say Canadian businesses are:...?"

RELIABLE	HONEST
• France - 96%	• France - 98%
• U.S. - 92%	• U.S. - 92%
• Germany - 90%	• Germany - 92%
• Japan - 88%	• Japan - 86%

Angus Reid Survey, "Canada and the World", 1997

Transparency International

Corruption Perception Index*, Selected Countries, 1997



* 0=perceived to be totally corrupt, 10=perceived to be totally clean
Source: Transparency International

Low levels of corruption contribute to a favourable business climate.

...with some of the world's fastest growing companies!

Deloitte Touche Tohmatsu International and World Link compiled a list of the 200 fastest-growing companies in the world.

Canadian companies accounted for 23 of the top 200 global companies as ranked by sales growth over a 5-year period.

Canada also has 3 companies within the top 15, while the highest ranking U.S. firm was in 26th position.

Canadian businesses include many of the world's fastest growing companies.

world link
GLOBAL GROWTH COMPANIES
THE 200 FASTEST GROWING
COMPANIES IN THE WORLD
Semi-Tech Corp. (4) • Rio-Alto Exploration (12)
Biochem Pharma (15) • Cott Corporation (32)
Philip Environmental (41) • Tarragon Oil & Gas (49)
International Petroleum Corp. (63)
Canadian Natural Resources (68) • TVX Gold (83)
Franco Nevada Mining Corp. (110) • Methanex Corp. (112)
Pinnacle Resources (130) • Corel Corporation (133)
International Verifact (135) • Anderson Exploration (154)
Inmet Mining Corp. (158) • Newbridge Networks Corp. (167)
Cabre Exploration (168) • Loewen Group (173)
Barrick Gold Corp. (174) • Cinram (180)
Euro-Nevada Mining Corp. (187) • Telus Corp. (189)
Sponsored by Deloitte
Touche Tohmatsu
International

The list is compiled using a database with 12,000 publicly-traded companies in 56 countries. The database does not include privately-held firms. As a result, data favours Canada, the U.S. and the U.K. where the business culture encourages companies to go public.

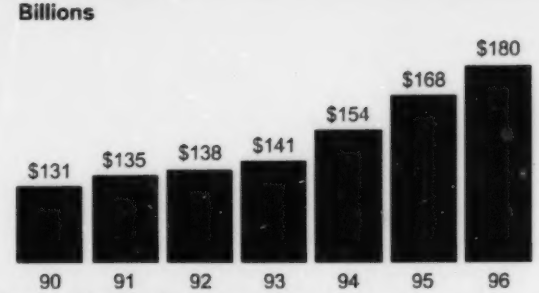
But our share of world investment is falling...

Global Foreign Direct Investment (FDI) is fast increasing and Canada has been a major beneficiary. Indeed, between 1991 and 1996 Canada's annual inward FDI per head averaged $US 208 — much higher than the $US 178 in the U.S.

But while FDI in Canada has been increasing, Canada has been receiving a smaller share of new global FDI investment.

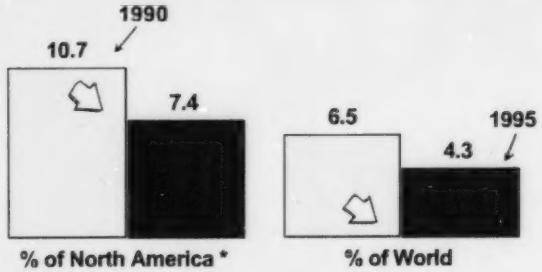
Although we remain a top destination for FDI, our North American share and world share are both dropping.

Canada's FDI Inward Stock



Source: Statistics Canada

Canada's Share of FDI Inward Stock



* FDI destined to Canada and the U.S. from origins beyond

Source: OECD, International Direct Investment Statistics Yearbook, 1997
United Nations, World Investment Report, 1997

...our credit ratings are less strong...

Our credit rating and long-term foreign currency rating are below those of most other G-7 countries.

Foreign Currency Debt Rating

	Long-term	Outlook	Short-term
Germany	AAA	Stable	A-1+
Japan	AAA	Stable	A-1+
U.S.	AAA	Stable	A-1+
U.K.	AAA	Stable	A-1+
France	AAA	Stable	A-1+
Canada	AA+	Stable	A-1+
Italy	AA	Negative	A-1+

Long-term:
AAA - EXTREMELY STRONG capacity to meet financial commitments
AA - VERY STRONG capacity. Addition of plus (+) or minus (-) show relative standing within the major rating categories

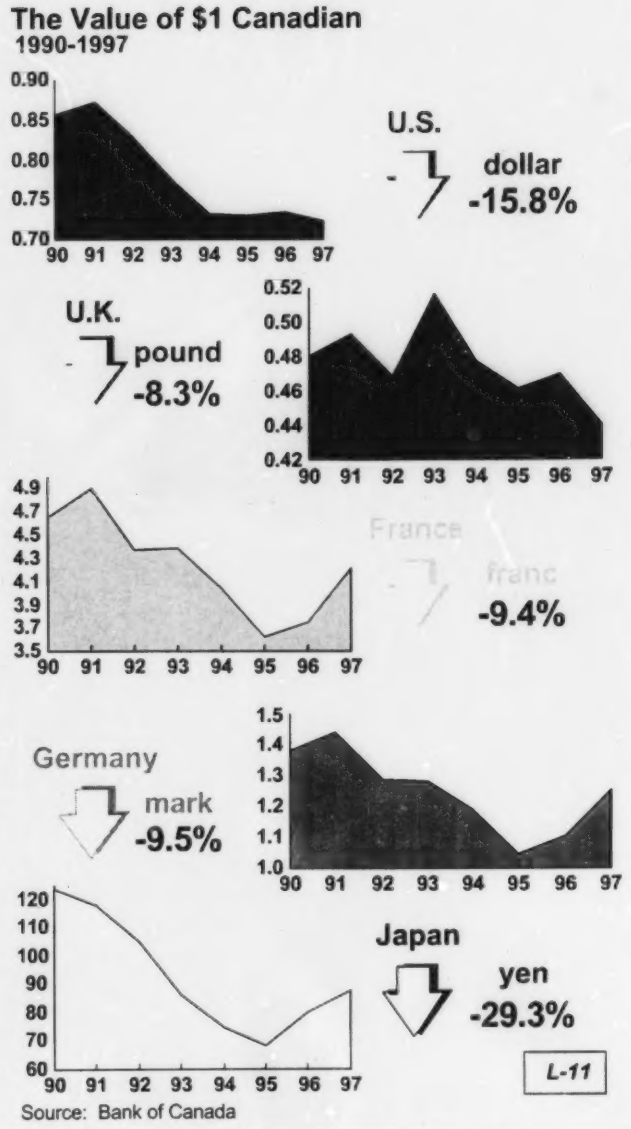
Short-term:
A-1+ - EXTREMELY STRONG capacity to meet financial commitments

Source: Standard & Poor's Canadian Focus, January 1998

...and our dollar has been low in the 1990s

Our Canadian dollar has fallen in the 1990s against many of our major competitors' currencies.

Only in the last couple of years, reflecting our lower inflation and improved budgetary situation, has it begun its climb back, holding up well through the recent Asian crisis against all others with one exception — the U.S. dollar.

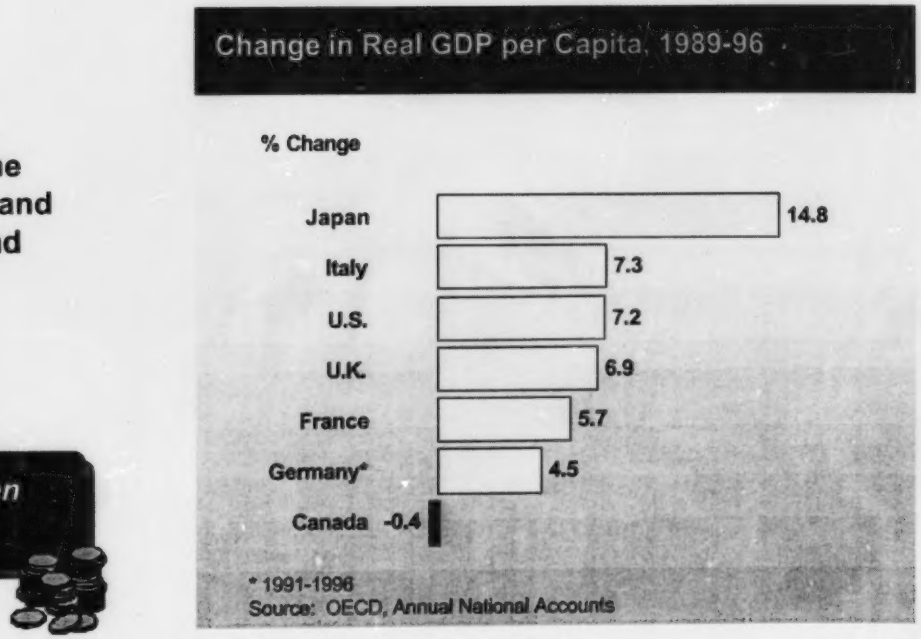


Source: Bank of Canada

Our output growth in the 1990s has been weak...

Canada's growth in GDP per capita between 1989-96 was the lowest of the G-7 countries — reflecting the depth and length of the recession in Canada, and the sluggish growth in productivity.

Among the G-7, Canada has been last in GDP growth per capita.



...as has our productivity...

Our productivity growth has been poor. Canada's total factor productivity actually shrank between 1979 and 1996.

Labour productivity in Canada is significantly lower than in the U.S.

Our productivity growth has been very weak over the past two decades.

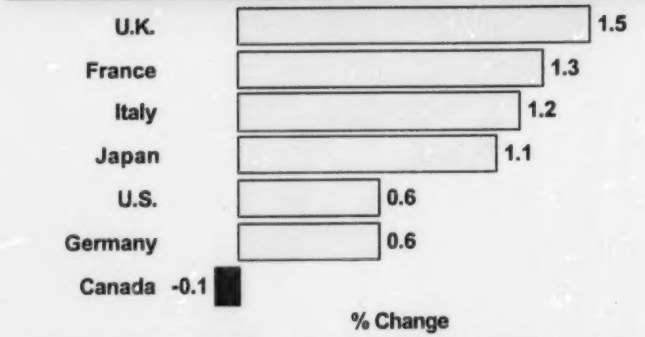
Manufacturing Labour Productivity, 1995

Relative Value Added per Hour Worked (PPP adjusted)

	U.S. = 100
U.S.	100
France	85.1
Germany	81.4
Japan	72.8
U.K.	69.7
Canada	69.6

Source: D. Pilot (1996), "Labour Productivity Levels in OECD Countries", OECD Economics Department Working Paper, No. 169.

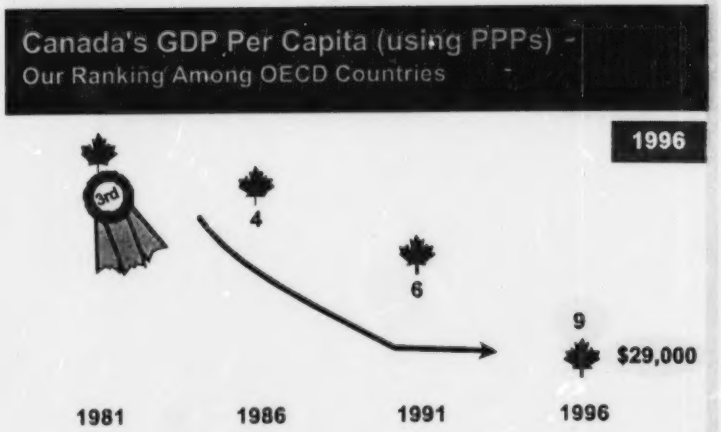
Total Factor Productivity Growth, 1979-96*



* Business sector. 1979-95 for U.K., Italy and Japan. 1979-94 for Germany
Source: OECD Economic Outlook, December 1997

...and growth in our standard of living has lagged as a result

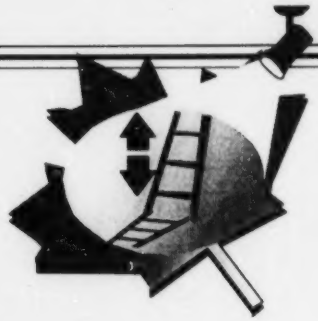
Our relative prosperity, as measured by GDP per capita, has declined relative to selected other industrial countries over the last 15 years, reflecting our relatively weak productivity performance.



Source: OECD, Annual National Accounts

In terms of per capita GDP, we have not kept pace with some of our key global competitors.

The ups and downs!



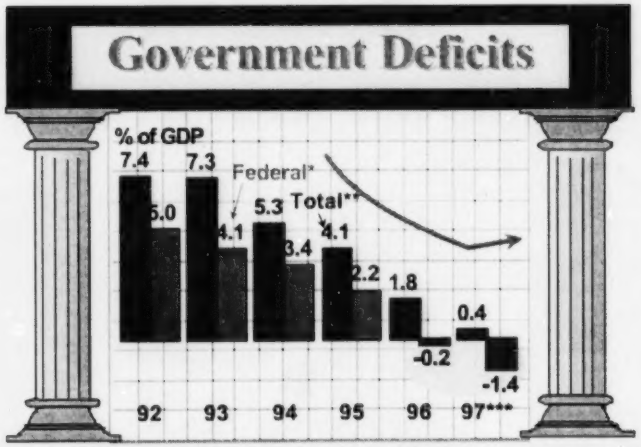
Canada has new-found fiscal strength...

After thirty years of high deficits, Canada is returning to fiscal health. The federal government balanced its books in 1997-98 — the first time in 30 years. Indeed, all governments in Canada have done much to clean up their balance sheets.

This, along with falling inflation, is helping interest rates to stay low. These are essential underpinnings to creating an encouraging environment for investment and innovation.

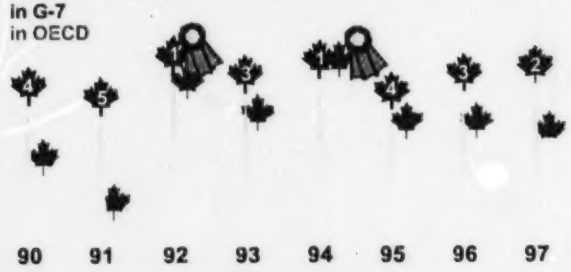
And investment and innovation will be integral to future growth in a global and knowledge-based world.

Key to Canada's recent improvement has been a dramatic turnaround in Canada's macroeconomic environment.



* Financial requirements basis, deficits are falling and disappearing in all provinces and territories, and Canada is the only G-7 country whose central government is recording a surplus in financial requirements.
** Includes federal, provincial and local
*** Projection
Sources: OECD Economic Outlook, December 1997
Department of Finance, Canada, February 1998

Our Ranking with Respect to Low Inflation



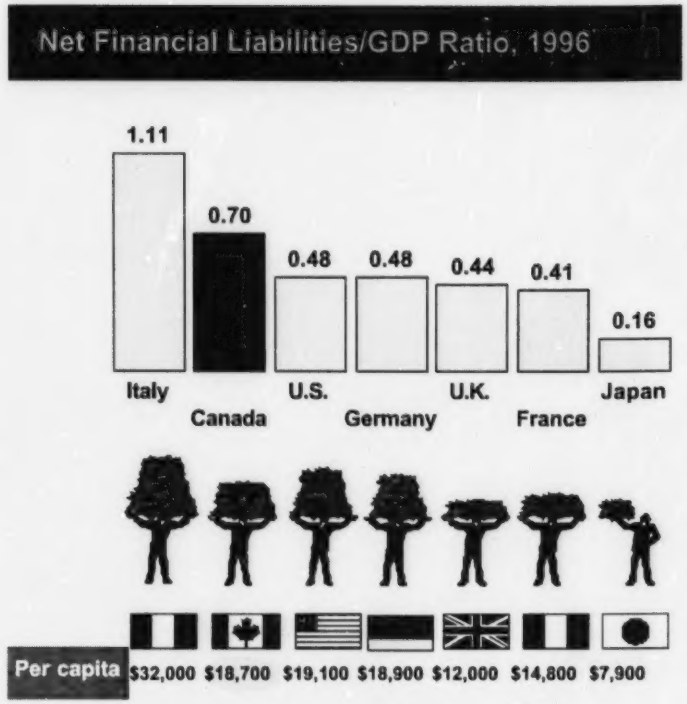
Source: DRI, World Economic Outlook, First Quarter, 1998

...but still has a sizable debt

Canada's net financial liabilities remain large — $561 billion. That's almost $19,000 per person.

And our net financial liabilities-to-GDP ratio is around 70% — 2nd highest amongst the G-7, and 3rd highest in the OECD (behind Italy and Belgium).

The good news is that it is declining after almost 30 years of build-up!



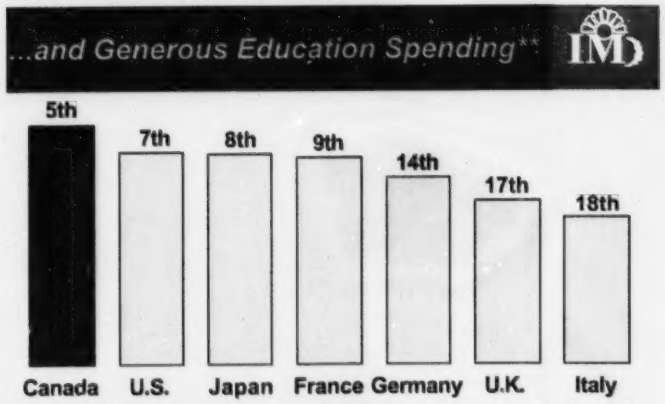
Source: OECD Economic Outlook, December 1997

Our people are highly-rated...

The WEF rates Canada tops in "knowledge workers".

And the IMD gives Canada high marks for "People" — reflecting our high enrollment rates in higher education and generous spending on education.

* Total enrollment in higher education as a proportion of total population aged 20-24, 1993
Source: WEF's Global Competitiveness Report



** Based on 1994 public education spending
Source: IMD's World Competitiveness Yearbook

...and so is Canadian management...

Both the IMD and the WEF note fast improvement in our management.

Canada is no. 3 in management, according to the WEF — based in part on:

- **Top-notch business schools**
- **High competency of financial officers**
- **Effectiveness of corporate control**
- **Favourable compensation policies and overall quality of management.**

High Marks for Management

WORLD ECONOMIC FORUM

Canada ranks 3rd in management — behind the U.S. and Sweden. This is a jump from 13th place in 1996.

	World Ranking	Ranking in G-7
Our bright spots:		
Management education	2	2
Management quality	3	1
Customer orientation	3	3
Plus we are tops in the G-7 in several management skills:		
Performance-related pay	2	1
Financial management	2	2
Willingness to delegate	5	2
Professional managers	3	3
Effectiveness of corporate boards	2	2
Use of info technology	7	7

...but there are still "human capital" challenges...

Are we building the workforce for tomorrow's knowledge-based economy fast enough? For example, how do we rate on the "new curricula" for success? Will we educate enough skilled workers to support world-class high-tech growth?

- **Even though Canada's per capita investment in education is among the world's highest, the performance of our young students in math and science is only about average.**

We must ensure that the youth of today are able to acquire the skills they need for tomorrow.

Final Year of Secondary School Combined Science and Math Scores

Above Average	
Netherlands	559
Sweden	555
Iceland	541
Norway	536
Switzerland	531
Denmark	528
Canada	526
New Zealand	525
Austria	519
Average	
France	505
Germany	496
Below Average	
Italy	475
U.S.	471

* Some countries did not fully satisfy sample guidelines (including Iceland, the Netherlands, Norway, Denmark, Canada, Austria, France, Germany, Italy, and the U.S.)

Source: IAEEA, Third International Mathematics and Science Study, 1998

Grade 8 Combined Science and Math Scores

	Overall
Singapore	71
England	67
Australia	65
Switzerland	65
Sweden	64
Scotland	62
Norway	62
Czech Republic	61
Canada	60
Netherlands	60
New Zealand	60
U.S.	55
Spain	54
Iran, Islamic Rep.	52
Portugal	47
Cyprus	46

* Some countries did not fully satisfy sample guidelines (England, Australia, Netherlands, U.S.)

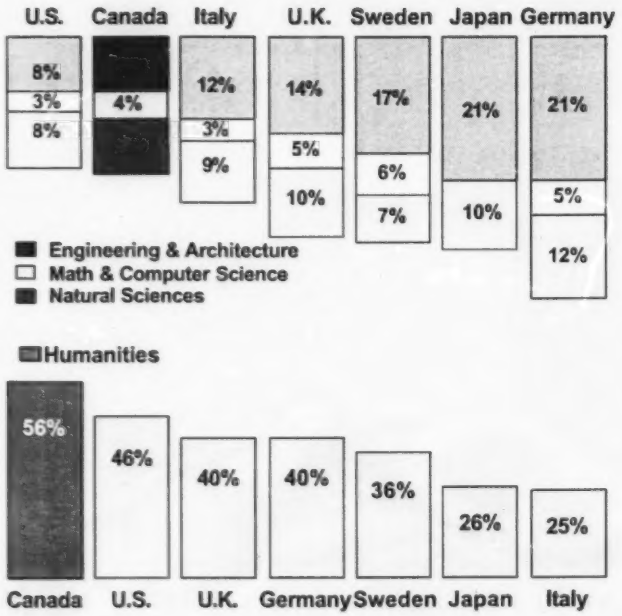
Source: IAEEA, Third International Mathematics and Science Study, 1997

...including potential skills mismatches...

Our proportion of university degrees awarded in natural sciences, math & computer science and engineering & architecture is small relative to other countries — despite the critical nature of these degrees to our future.

We are turning out fewer hard sciences graduates than other G-7 countries.

University Degrees Awarded by Field of Study 1995

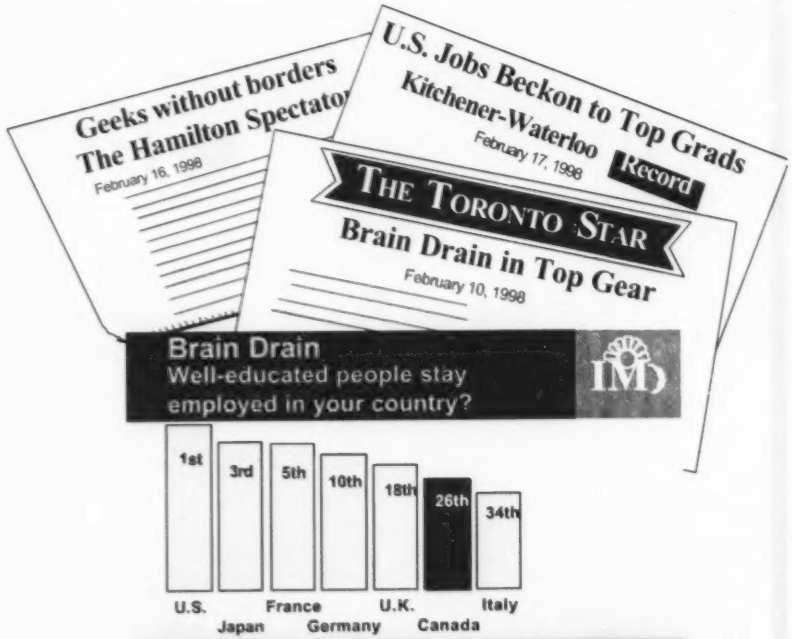


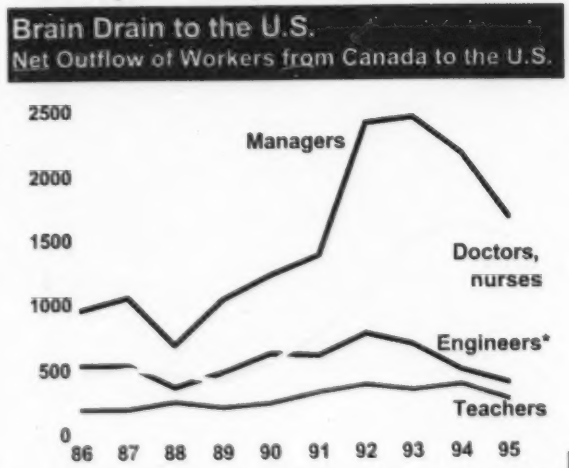
* Business, Law and Medical Sciences comprise the remaining fields of study.
Source: OECD, Education at a Glance - Indicators, 1997

...and concerns about losing "knowledge workers"

While we attract many skilled knowledge workers from afar, business often focusses on migration of knowledge workers to the U.S.

- **Figures show we lose on average each year to the U.S. over 800 engineers, computer specialists and natural scientists (or *600 on a net basis).***





* Includes computer scientists, mathematicians and natural scientists

Source: Statistics Canada

M-7

Canada is exceptionally open to trade...

Canada is the most open of the G-7 from a trade standpoint. Our trade in goods and services far surpasses that of our major competitors — at almost 75% of total GDP!

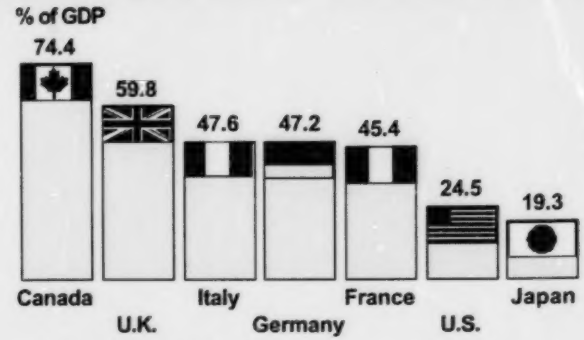
The WEF accords Canada 4th place in "Openness", behind only Hong Kong, Luxembourg and Singapore — three *much smaller* economies.

The WEF notes the beneficial impact of our exchange rate and the availability of export credits and insurance at reasonable cost — matters on which the IMD agrees.

The WEF also awards first place to Canada for how its international relations support business activity.

However helpful our exchange rate has been to export companies, it's not a competitiveness edge on which to build our future.

Trade in Goods and Services*, 1996



* (Exports + Imports)/GDP
Source: OECD

Openness and International Relations — WORLD ECONOMIC FORUM

Ranking

4 **Openness ranking**

The state of your country's diplomatic relations facilitates business activity with:

1 - **its neighbours**

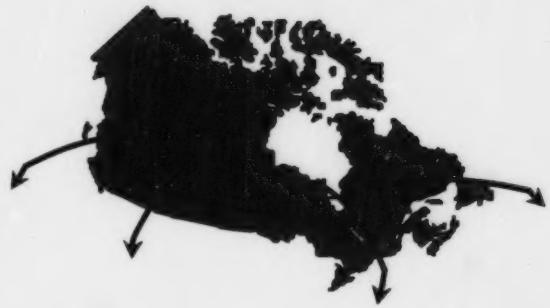
1 - **the rest of the world**

...especially with the U.S.

Export Market Diversification, 1995 IMD

Indeed, the IMD lowers Canada's marks because our trade is neither broad nor diffuse, but concentrated on too few markets.

As well, we have a large deficit on commercial services.



Virtually all countries are opening up — and rapidly. Simply trying to maintain our markets is a recipe for slow growth or even decline. We have to look more outwardly, and involve more firms — large and small.

% of export market value dominated by top 3 destination countries

Rank		
3	Germany	27.1
6	U.K.	33.5
9	France	36.2
12	U.S.	37.6
17	Italy	38.9
18	Japan	40.9
45	Canada	86.3

Balance of Commercial Services % of GDP

Rank		
10	France	1.24
11	U.K.	1.05
12	U.S.	0.84
20	Italy	0.17
33	Japan	-1.12
36	Canada	-1.43
39	Germany	-2.11

Canada is viewed as having strong potential in certain key sectoral technology areas...

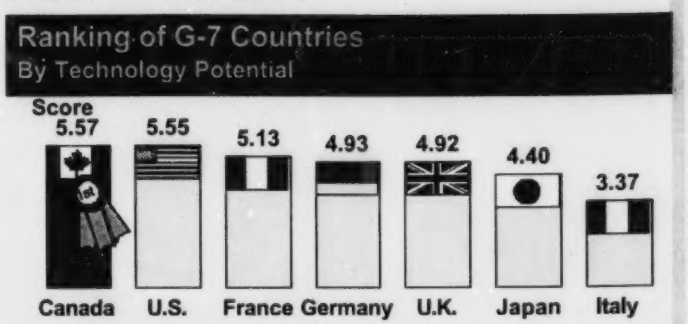
The WEF says Canada has outstanding technology potential, based on our high secondary enrollment and broad use of computers.

Canada is ranked 2nd in the G-7 and 7th in the world in terms of information technology. The U.S. still leads the world in this area.

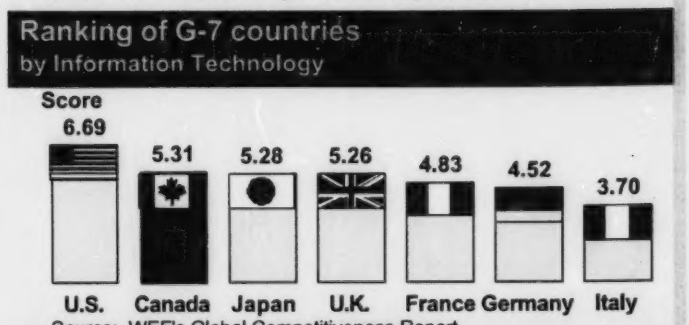
Canada's infrastructure continues to be one of Canada's most important assets. Canada has world-class telephone, cable and computer networks. And more households in Canada than elsewhere in the G-7 have home computers.

Canada is well-positioned for the Information Age!

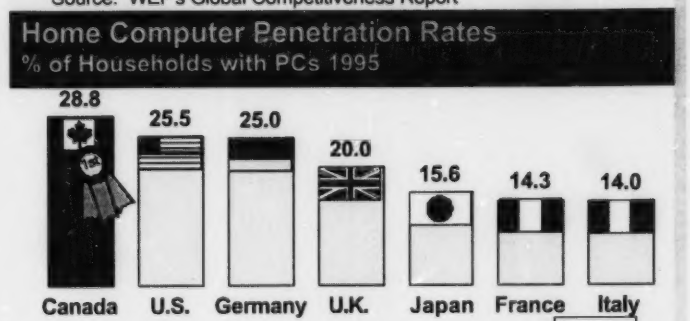
With relatively high penetration rates in telecommunication, computers and TV, and low user charges, Canadians are quite well-equipped for the rapidly evolving multimedia environment.



Source: WEF's Global Competitiveness Report 1997



Source: WEF's Global Competitiveness Report



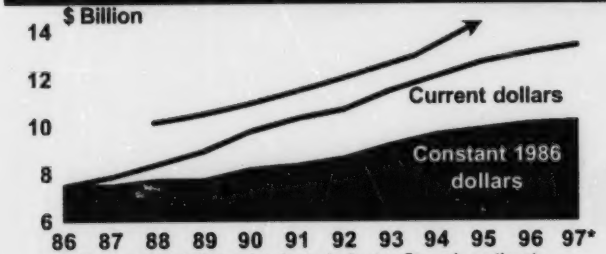
Source: OECD Information Technology Outlook 1997

...and knowledge...

While R&D spending in Canada is now rising quickly, our R&D levels are still low by international standards. Considered as a share of GDP, the WEF ranks Canada 16th in the world, and 6th in the G-7.

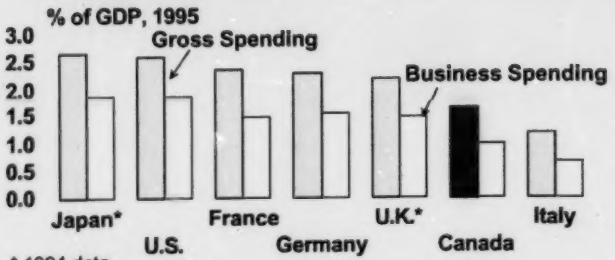
Increasingly, the ability to innovate will be what sets apart the better performing countries.

R&D Spending is Rising...



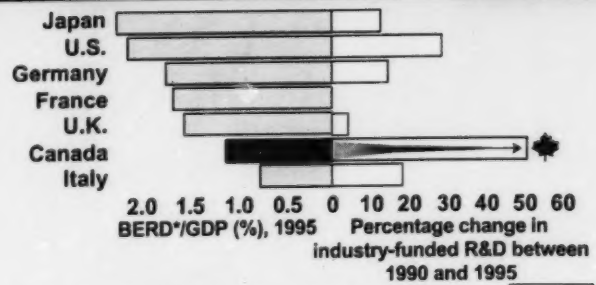
* 1997 constant dollar value is an Industry Canada estimate
Source: Statistics Canada

...But Our R&D Levels Remain Relatively Low



* 1994 data.
Japan data adjusted to be comparable to other countries
Source: OECD, Main Science and Technology Indicators, 1996

Industry Research and Development



* Business Expenditure on Research and Development
Source: OECD

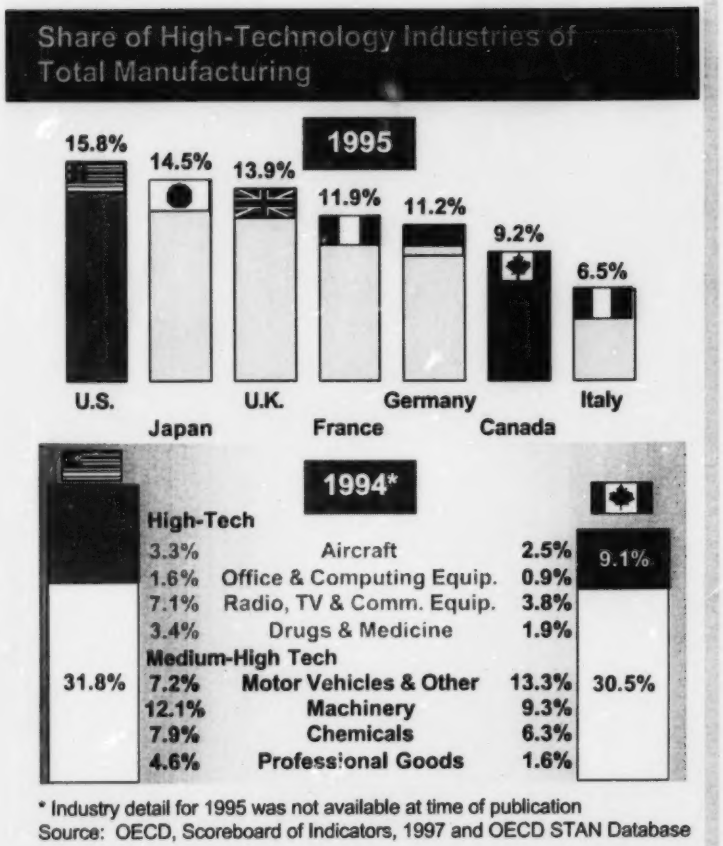
M-11

...but our high-tech sector is still relatively small

We still lag considerably behind other nations in the proportion of total output contributed by our high-tech industries.

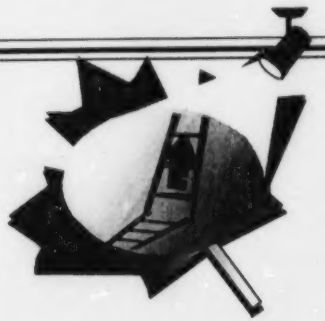
This is a concern since high-tech industries are typically the fast-growing sectors of advanced economies.

In addition, lead countries in high-tech activities tend to dominate markets. A smaller high-tech sector will lead to fewer opportunities for market dominance in future products and services.



* Industry detail for 1995 was not available at time of publication
Source: OECD, Scoreboard of Indicators, 1997 and OECD STAN Database

Moving still higher

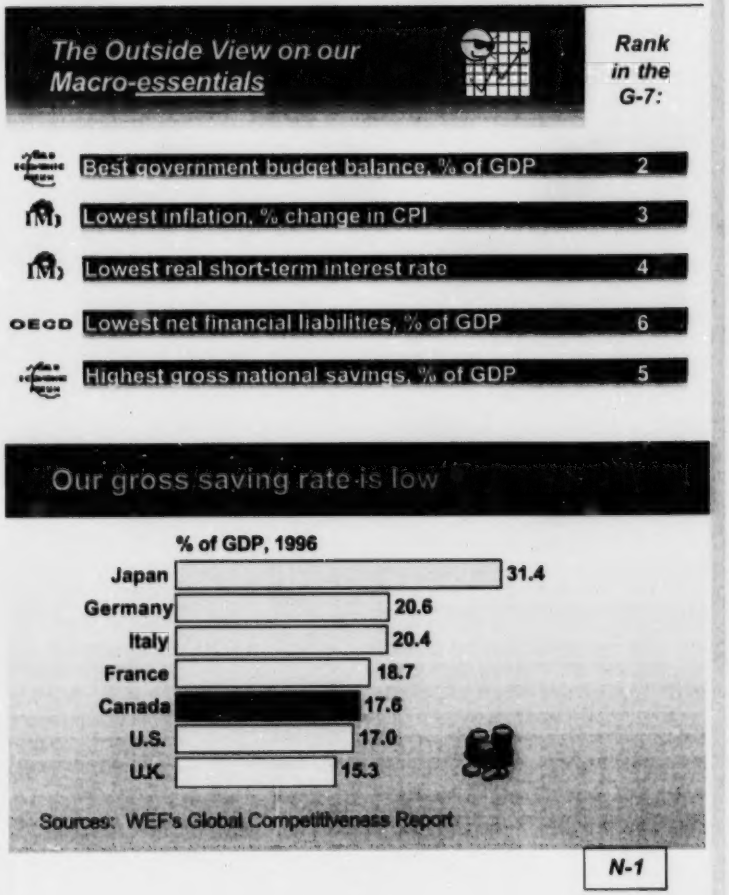


"Macro-essentials" in Canada have shown enormous progress...

Good macro-fundamentals are a prerequisite.

Progress on deficits and inflation has been exceptional by world and G-7 standards. Canada ranks somewhat lower in national gross saving, and government debt.

Good macro-fundamentals are essential — but they are just the start! While they free us to think and prepare for the future, tomorrow's prosperity will depend ultimately on how we invest and how much we invest.

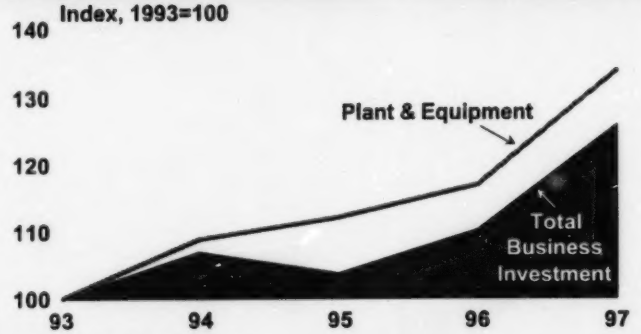

The Outside View on our Macro-essentials
Rank in the G-7:
Best government budget balance, % of GDP 2
Lowest inflation, % change in CPI 3
Lowest real short-term interest rate 4
OECD
Lowest net financial liabilities, % of GDP 6
Highest gross national savings, % of GDP 5
Our gross saving rate is low
% of GDP, 1996
Japan 31.4
Germany 20.6
Italy 20.4
France 18.7
Canada 17.6
U.S. 17.0
U.K. 15.3
Sources: WEF's Global Competitiveness Report

...while our "micro-fundamentals" grow in importance...

Improved "micro-fundamentals" begin with investment. Our investment <u>levels</u> are not tops, but we have been improving.

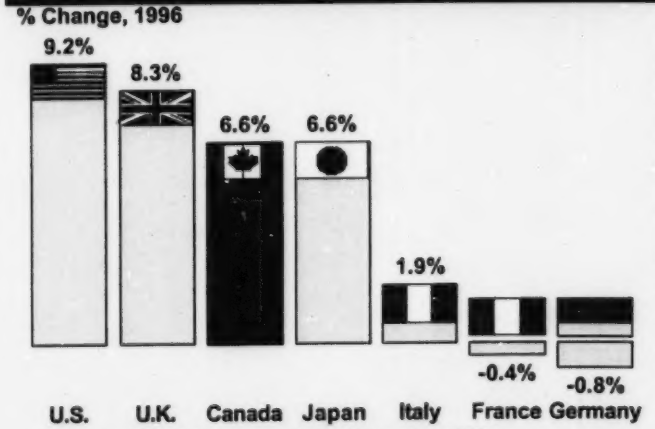
Indeed, the business sector has been investing impressively in new equipment, and this should boost productivity in the coming years — by improving our ability to innovate and adopt new technologies, and building a growth-related infrastructure.

Canadian Business Investment



Source: Statistics Canada

Real Gross Capital Formation
Private Non-residential Fixed Capital



Source: OECD Economic Outlook, December 1997

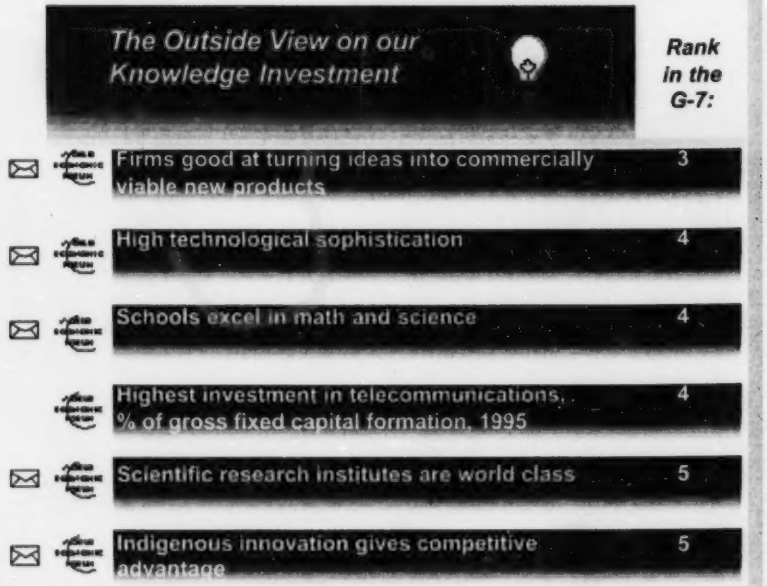
...necessitating faster knowledge investment...

Human knowledge is increasing exponentially.

Future growth will be linked to our capacity to embrace this knowledge, and be innovators.

We appear to have been less successful than our U.S. neighbour and our G-7 competitors.

While future prosperity and growth depend on investment, knowledge investment is particularly beneficial.


The Outside View on our Knowledge Investment
Rank in the G-7:
Firms good at turning ideas into commercially viable new products 3
High technological sophistication 4
Schools excel in math and science 4
Highest investment in telecommunications, % of gross fixed capital formation, 1995 4
Scientific research institutes are world class 5
Indigenous innovation gives competitive advantage 5

...and more knowledge-based FDI

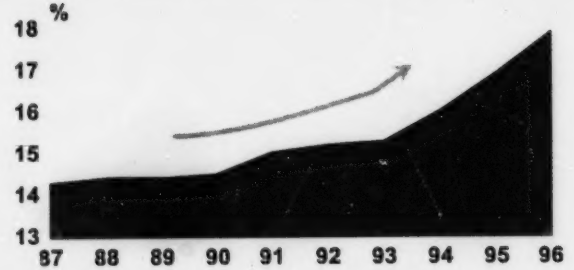
FDI into Canada has been a growing source of investment, and plays a large role in our acquisition of knowledge and technology transfer.

- **As the pace of change and knowledge-creation steps up around the world, we must increasingly seek outside knowledge.**

Competition for FDI will intensify, so we must offer what foreign investors find most attractive.

Rising Importance of FDI

Net FDI as a Proportion of Net Fixed Capital Investment



Source: Statistics Canada

Inward Foreign Direct Investment, 1995

	Amount ($US Million)	% of GDP
U.K.	$32,210	2.0
Canada	$10,786	1.9
France	$23,735	1.5
U.S.	$60,230	0.8
Italy	$4,880	0.5
Germany	$8,940	0.4
Japan	$60	0.0

Source: WEF's Global Competitiveness Report

However, knowledge-based activities are attracted to talent...

The magnets for investment are changing.

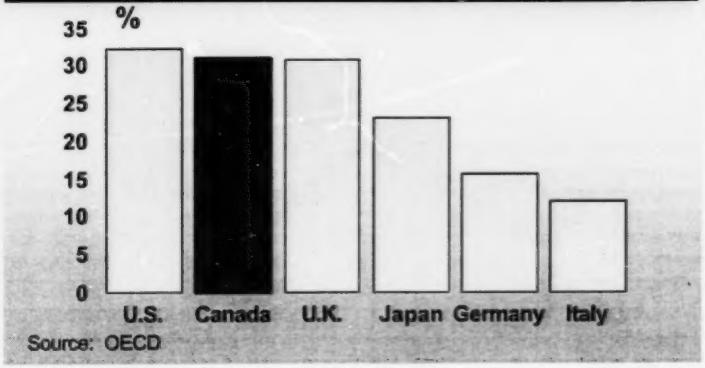
Today, available talent shares top billing with a favourable business climate, ample resources and good transportation — especially for firms wanting to keep a technological-edge on global competitors.

These firms locate knowledge-based activities in areas where there are pools of knowledge and skill-workers.

Skilled talent and a growing "knowledge-force" will likely be critically important to sustaining the growth of Canada's high-knowledge firms and industries.

The Outside View on our Knowledge Workers	*Rank in the G-7:*
High post-secondary enrollment	1
Internet users per million inhabitants, 1995	1
Enough qualified engineers	3
High number of R&D personnel in business enterprises	7

Ratio of University Graduates to Population at Typical Age of Graduation, 1995



Source: OECD

...especially those with technical skills

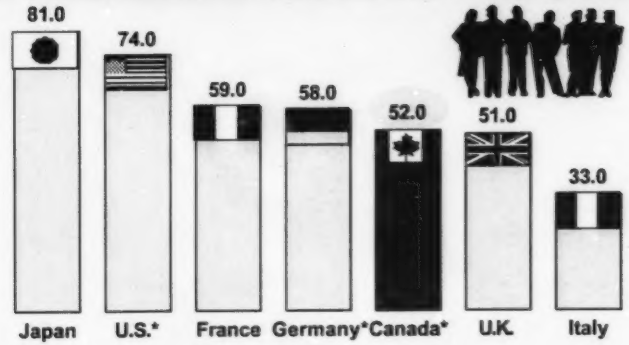
Although we have the highest post-secondary enrollment rate and percentage of the population who are knowledge workers, this does not translate into a high percentage of scientists and engineers.

Indeed, our per capita share of research scientists and engineers is smaller than that found in several of our key competitors — including in Japan, the U.S., France and Germany.

Right now, most of our industrial R&D personnel are found in 7 major industries. These industries' future growth and that of our leading technological firms will depend on there being a growing pool of talented and skilled workers.

While we are generally strong in knowledge workers, we are viewed as weaker in areas demanding technical skills background.

Research Scientists & Engineers Per Thousand Labour Force, 1994



* 1993 instead of 1994
Source: OECD's Scoreboard of Indicators, 1997

Most R&D Personnel are Found in Seven Industries

	% of total, 1993
Telecommunication equipment	14
Aircraft & parts	6
Engineering & scientific services	11
Computer & related services	10
Pharmaceutical & medicine	4
Finance, insurance & real estate	6
Wholesale trade	7

Source: Statistics Canada

Governments are striving to become more "efficient"...

Governments are finding it increasingly necessary to be more <u>efficient</u> in meeting the changing needs of the new economy.

The rapid rise of the global economy impels governments to encourage innovation and to promote favourable business climates that allow firms to take advantage of new opportunities — all the while ensuring people have the tools they need to make the most of their own lives.

What kind of a government is needed for the Information and Idea Age? The outside verdict — a flexible and supportive government.

The Outside View on Government	*Rank in the G-7:*
Legal system is effective in enforcing commercial contracts	1
The legislative activity of the parliament is meeting competitive requirements of economy	1
The legal framework is supportive of the competitiveness of the economy	1
Government economic policies are impartial and transparent	2
State interference in private business minimal	2
The government adapts its policies to new economic realities effectively	2
Government regulations impose no burden on competitiveness	2
High protection of intellectual property	4
Low government spending, as a % of GDP, 1996	4

...and supportive

A supportive climate is built on marketplace framework rules that encourage businesses to be quick and innovative.

The IMD suggests we compare favourably with the rest of the G-7, but with room to further improve.

A supportive regulatory and business climate is fundamental to enhancing the modern economy's competitive stance, and its attractiveness to foreign investors.

Government efficiency

The legislative activity of the parliament is meeting the competitive requirements of the economy

	Ranking
Canada	5
U.K.	11
U.S.	12
France	26
Germany	30
Japan	40
Italy	45

The legal framework is supportive of the competitiveness of the economy

Canada	8
U.K.	10
Germany	24
Japan	29
U.S.	31
France	32
Italy	44

The government adapts its policies to new economic realities effectively

U.K.	13
Canada	14
U.S.	21
France	34
Germany	41
Italy	44
Japan	46

Attracting and retaining knowledge workers is increasingly important...

The future will see cut-throat competition to attract and keep the best technological and business minds.

We are attracting skilled immigrants from outside the U.S.

- **In 1994, just over 10% of our immigrants worked in the natural sciences, engineering and mathematics occupations — up from 5% in 1991.**

However, higher personal taxes, lower salaries and a comparatively low dollar with the U.S. are factors influencing Canadian knowledge workers to look to the U.S. — including young "cyberpros" and accomplished managers.

How to keep the best? Quality of life counts — competitive companies are spending more on health, safety, lifestyle and recreation facilities for their busy employees. But other factors, such as salaries and taxes are also important.

The Outside View on our Retaining and Attracting Talent

	Rank in the G-7:
Personal taxes encourage individual work initiative	4
Level of personal income tax on profits, income and capital gains as a % of GDP	7

Tax Bill Comparison between Households

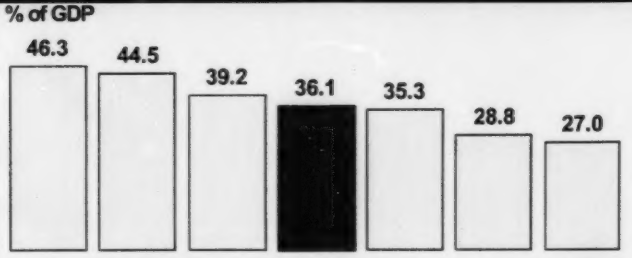
	Total tax bill ($US)			
Salary ($US)	Toronto	Calgary	New York	Houston
$300,000	$144,000	$130,600	$99,400	$81,400
100,000	41,300	38,500	27,200	21,100
60,000	20,700	20,000	14,000	10,400
100,000*	33,500	32,900	29,300	23,200

* both spouses work, each earning $50,000

Assumptions: Household definition - married, non-working spouse, mortgage, 2 children; U.S. taxes include federal, state and Social Security tax; Canadian taxes include federal, provincial and CPP; 1997 tax rates ($US = $C1.40); amounts rounded to nearest $100; U.S. mortgage interest and real-estate taxes based on 1994 IRS statistics

Source: Price Waterhouse as cited in the Globe and Mail, Feb. 28, 1998

Total Tax Comparison, 1995



Source: IMD's World Competitiveness Yearbook

...as is encouraging life-long learning...

Computer skills now join reading, writing and arithmetic as learning basics, so "connecting" people to the information highway is a crucial element in the learning environment. It allows our youth and citizenry to connect with the future, and provides the means for a more learned and knowledgeable society.

Making Canada the most "connected" nation in the world will build a stronger understanding of who we are, and boost our potential to benefit in a knowledge-based world.

The Information and Ideas Age is also an Education Age...with learning at its centre.

Becoming the most connected nation in the world by the year 2000 would enhance our standing as a world-leading knowledge-based and learning-centred nation.

The Outside View on our Learning Environment	*Rank in the G-7:*
Education system meets the needs of a competitive economy	1
Germany	2
U.S.	3
France	4
U.K.	5
Japan	6
Italy	7

The Millennium Fund will give a helping hand to young people across the nation to ensure that they have globally competitive skills. It will also help ensure that our young people and today's workers have the knowledge, inclination to innovate, and scientific and technological skills base to meet the demands of the knowledge society.

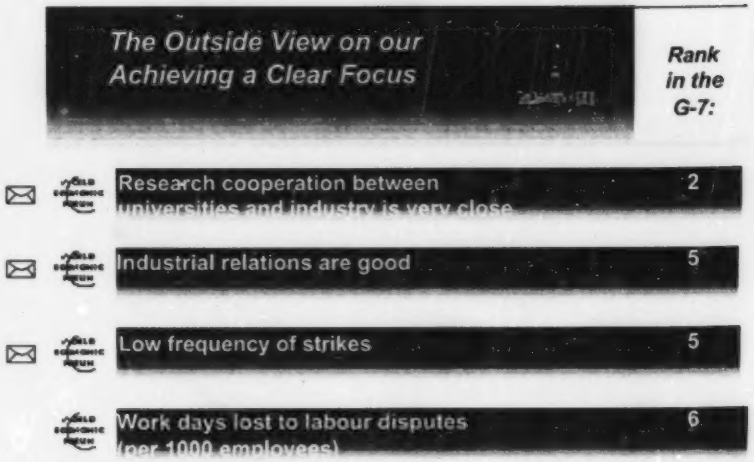
SchoolNet continues to bring the Internet into the classroom, and the Community Access Program is bringing all of Canada on-line — so every Canadian will someday have access to the far reaches of cyberspace.

Canada's world-leading research effort into next generation communications networks will put in place the world's fastest coast-to-coast information network, providing Canada an important leg up on the rest of the world.

...and facilitating a cooperative focus to the economic opportunities ahead

Awareness of shared goals is important.

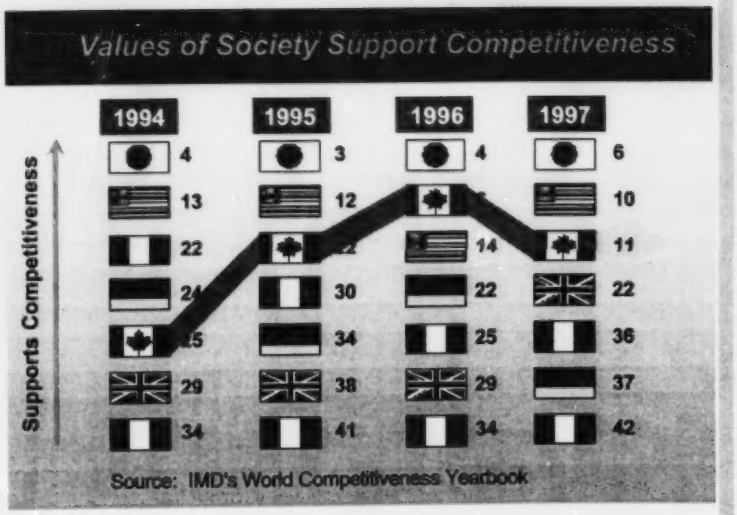
Especially because partnerships will be key. We will all need to work together — government, business, universities and society — to successfully embrace the necessary changes associated with the increasing knowledge requirements.


The Outside View on our Achieving a Clear Focus
Rank in the G-7:
Research cooperation between universities and industry is very close
2
Industrial relations are good
5
Low frequency of strikes
5
Work days lost to labour disputes (per 1000 employees)
6

We must focus on the global competitiveness challenge...

The international view is that Canadian society is increasingly supportive of "competitiveness".

The 21st-century will be a global race! In addition to developing a knowledgeable, learned society it seems increasingly important that we also become more forward-looking and assertive — to engage wider markets, in both traditional products and services and in emerging fields.



...and the need to engage new markets

Our growth into many emerging geographical markets has been slower than our expansion into the U.S.

Also, to sustain our growth into international markets, we may have to depend less on an undervalued currency, and more on engaging our new economy strengths — launching new and more innovative and value-added products and services.

As we enter the 21st century, the global economy requires us to seek opportunity not just at home, but in all the markets of the world including in new goods and services.

The outside View on our Meeting Global Challenges	*Rank in the G-7:*
Exchange rate favourable to export expansion	1
Export position is a priority	1
Aggressiveness	3
Export credits and insurance are available at reasonable prices	2
Foreign investors are free to acquire corporate control	6

Speed Going into New Markets		Export Growth
Exports to:	Asia Pacific*	9.5%
	Latin America*	12.8%
	Mexico	11.1%
	Central & Eastern Europe	42.9%
	(U.S.)	(12.1%)
Exports in:	Scientific & Professional Equip	14.6%
	Communication & Other Electronics	12.1%
	Business Machines	12.9%
	Pharmaceutical & Medicine	23.7%
	Other Electrical & Electronics	15.5%
	Computer & Information Services	15.0%
	Management Services	9.6%
	Architectural & Engineering	24.1%

* Asia Pacific excludes Japan, Latin America excludes Mexico
Source: Statistics Canada and TIERS

Looking ahead

The Canadian economy is gaining strength...

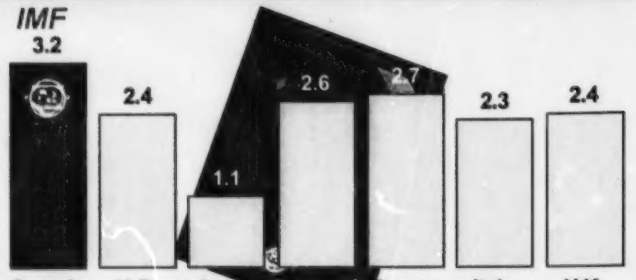
International organizations such as the IMF, UN and the OECD all predict that we will out-perform other major industrial countries in the coming year.

Real output in 1998 is expected to grow by a healthy 3.2 - 3.5%.

Looking ahead

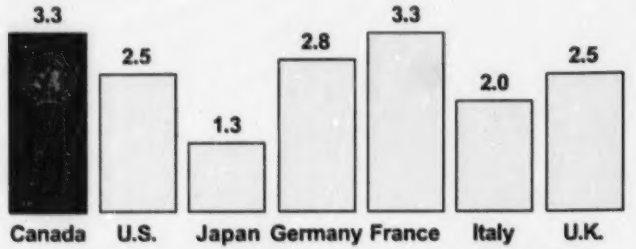
Real GDP Growth Forecast — 1998

IMF



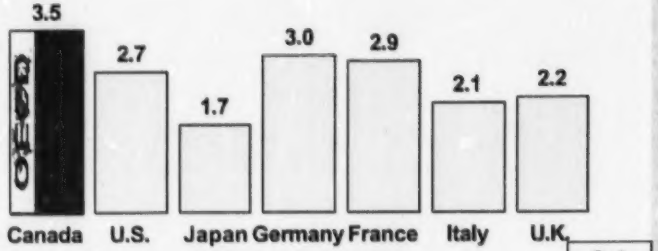
Source: World Economic Outlook, Dec. 1997, International Monetary Fund

UN



Source: The World Economy at the Beginning of 1998, United Nations

OECD



Source: OECD Economic Outlook, December 1997

...but maintaining progress on the "macro-essentials", and focus on "micro-fundamentals" are key

First, we will need to continue doing those things which we are already doing well — on the macro-side.

Plus, we will need to make the shift to be world-leaders in the new fundamentals: in areas of learning, innovation and creativity.

Key Messages from the Outside

Macro-side vigilance:
Continued vigilance of our macro-fundamentals will underpin our future prosperity. Successes at these permit us to focus on other critical and necessary steps to move up in world rankings.

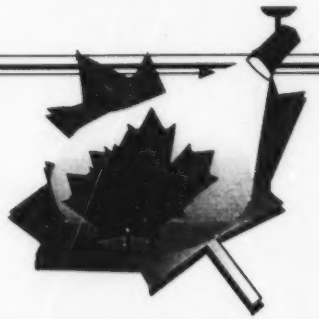
More knowledge investment:
Adapt to change and move ahead, building more powerful, innovative industries, and addressing our smaller R&D innovation/adoption gap with key competitors.

Develop, retain and attract knowledge workers:
Investing in our leading "edge"...a 21st century 'knowledge-force' — that is learning-oriented and talented in tomorrow's skills.

A government for the 21st century:
Providing a supportive climate for investment, and the tools for business and people to excel.

More globally-aggressive:
Assertiveness in new markets, products and services. More Canadian firms trading, and in more markets, including high-tech and high-knowledge products and services.

Annex



Forecasts of GDP Growth

	IMF	UN	OECD	CONSENSUS FORECASTS	STANDARD & POOR'S	The Economist Intelligence Unit
	1998	1998	1998	1998	1998	1997-2001
Canada	3.2	3.3	3.5	3.5	3.5	3.3
U.S.	2.4	2.5	2.7	2.6	2.3	2.6
Japan	1.1	1.3	1.7	1.1	0.7	n.a.
Germany	2.6	2.8	3.0	2.9	2.2	2.6
France	2.7	3.3	2.9	2.8	2.6	2.5
Italy	2.3	2.0	2.1	2.3	2.4	2.2
U.K.	2.4	2.5	2.2	2.5	2.1	2.5

Source: IMF's World Economic Outlook; UN's The World Economy at the Beginning of 1998; OECD's Economic Outlook; Consensus Forecasts; The Economist Intelligence Unit's - Worldwide Business Cost Comparisons

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Any questions or comments?

We welcome your questions, comments and suggestions? You can reach us by ...

sending us a letter:	**Denis Gauthier** **Director General** **Micro-Economic Policy Analysis** **Industry Canada** **235 Queen Street** **Ottawa. Ontario** **K1A 0H5**
e-mailing:	**gauthier.denis@ic.gc.ca**
or faxing us at:	**(613) 991-1261**

The *Micro-Economic Monitor* is prepared on a quarterly basis by the Micro-Economic Analysis Directorate of Industry Canada. The Monitor provides a quick and easy-to-read update on Canada's economic performance. It also provides topical in-depth reports on current economic issues from a micro-economic perspective.

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